



Tax Incentives for Businesses -- Energy-Saving Upgrades in Commercial Buildings

A business tax deduction is provided for the cost of certain “property” installed in commercial buildings which results in energy consumption less than the 2001 standard. “Property” has a specific definition in the law, but in general, eligible products include those relating to interior lighting, heating, cooling, ventilation, hot water systems, or the building envelope. This deduction is available for systems “placed in service” from January 1, 2006 through December 31, 2008.

A full tax deduction based on the *overall* energy saving performance of the building

- A tax deduction is provided that is equal to the purchase and installation price of certain energy-efficient property or products that are installed in a commercial building, up to a maximum of \$1.80 multiplied by the number of square feet.
- To be eligible to claim the income deduction, the owner must show through an approved computer model that the building, *overall*, uses 50% less energy than a reference facility set forth in ASHRAE Standard 90.1-2001, April 2, 2001.
- The energy-saving products that are considered in the computer model are: Interior lighting systems, Heating, Cooling, Ventilation, Hot Water Systems, and the Building Envelope.

A partial tax deduction for the installation of specific energy-saving subsystems

- For commercial buildings that do not achieve the full deduction (above), a partial deduction is allowed that is equal to the purchase price of subsystems for the building envelope; heating and cooling; and lighting. If any of these three sub-systems is eligible for the tax deduction if it contributes to an overall energy savings of 16 and two-thirds percent. For qualified sub-systems, the deduction is the cost of the subsystem up to a maximum of \$.60 *multiplied by the number of square feet*.
- For lighting systems, a deduction can be taken if the lighting system includes the ability to switch roughly half the lights off and still have uniform light distribution, and also reduces installed lighting power. A

deduction of \$.30 to \$.60 per square foot can be taken if the system achieves power reductions of 25% to 40% from lighting power values in the ASHRAE Standard.

How Now?

- IRS Notice 2006-52 provides guidance to commercial building owners and lessees on how to qualify for the tax credit. The Notice describes the process for Certifying that the interior lighting systems, heating, cooling, ventilation, and hot water systems, or building envelope meet the energy efficiency standards.
- The Department of Energy Building Technologies Program approves software that can be used to calculate energy efficiency for purposes of certifying compliance with the energy efficiency standards. They will list approved software on their web site.
- For government buildings, the tax deduction is taken by the designer of the building instead of the government agency that owns the building.

Take Note!

- Commercial buildings do not include residential buildings of less than four stories.
- Save those receipts and make sure they include the specific product information, and when and where it was purchased or installed.

For more information

Energy Policy Act, Section 1331	www.energy.sc.gov/Public%20Info/energy%20act/tax%20incentives.htm#SEC.%201331
IRS Notice 2006-52	www.irs.gov/irb/2006-26_IRB/ar11.html
ACT 88 (2008)	http://www.energy.sc.gov/publications/LAW-Act.88_2007.pdf
Department of Energy Building Technologies Program	http://www.eere.energy.gov/buildings/info/tax_credit_2006.html
Commercial Building Tax Deduction Coalition	www.efficientbuildings.org
Commercial Lighting Tax Deduction	www.lightingtaxdeduction.org
TIAP Tax Incentives Assistance Project: Commercial Buildings	www.energytaxincentives.org/tiap-commercial-bldgs.html
ASHRAE Standard 90.1-2001	http://xp20.ashrae.org/frame.asp?standards/std90.html

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